



Wisconsin Federation of Cooperatives

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February 7, 2008

To: Chairman Al Ott and the Assembly Committee on Agriculture

From: David Ward, WFC Dairy Director
John Manske, WFC Director of Government Relations

Re: Assembly Bill (AB)763

Thank you for holding a hearing on AB 763 which will allow dairy cooperatives to claim the dairy manufacturing facility investment credit. In Wisconsin 2007 Act 20 the legislature included the Dairy Manufacturing Facility Investment Credit. Dairy cooperatives that own manufacturing facilities can not take advantage of this credit because they are not listed in Wisconsin 2007 Statutes 71.47 (3p) part 3. AB 763 will allow cooperative cheese plants the same credit as proprietary plants. Eighty-five percent of the milk produced in Wisconsin is marketed through a cooperative and nearly 60 percent of the cheese produced in Wisconsin is made in a cooperative plant.

The need to modernize our dairy manufacturing facilities is crucial at this time. The year 2007 brought a 17-year high in milk production to Wisconsin. Processors need more capacity to turn that milk into cheese, butter and other products. AB 763 allows cooperatives to modernize and increase their production capacity to process the increased supply of milk. The alternative would be to put the milk on a truck and send it to other states to be processed. Processing the milk in Wisconsin creates jobs and contributes to the \$20 billion the dairy industry brings in every year.



State of Wisconsin • DEPARTMENT OF REVENUE

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Jim Doyle
Governor

Roger M. Ervin
Secretary of Revenue

Assembly Agriculture Committee Hearing, February 7, 2008

AB 763— Dairy Cooperative Manufacturing Facility Investment Credit (Rep. Davis)

Description of Current Law and Proposed Change

Under current law, a person may claim a credit against the person's income or franchise tax liability that is equal to 10 percent of the amount that the person paid in the taxable year for dairy manufacturing modernization or expansion related to the claimant's dairy manufacturing operation. If the amount of the credit exceeds the amount of the person's tax liability, the person receives a refund. Under current law, dairy cooperatives are, generally, not subject to state income or franchise taxes and, therefore, are not eligible to claim the credit for dairy manufacturing modernization or expansion.

This bill allows the members of a dairy cooperative to claim the credit for the dairy manufacturing modernization or expansion expenses paid by the cooperative. The dairy cooperative determines the amount of the credit that each member may claim, based on the amount of milk each member delivers to the cooperative. Under the bill, the maximum amount of the credits that may be allocated to all dairy cooperatives in FY 2010 is \$600,000, and the maximum amount of the credits that may be allocated to all dairy cooperatives in FY 2011, and in each fiscal year through FY 2017, is \$700,000. The maximum amount that can be claimed in aggregate for each dairy cooperative's facility for all tax years is \$200,000.

Fairness/Tax Equity

- Only businesses engaged in processing dairy products are eligible for the credit. The credit is not available to businesses in other industries.

Impact on Economic Development

- The credit provides an incentive for expansion and modernization in the dairy processing industry, which could result in the creation of jobs and could enhance the competitiveness of the industry.

Administrative Impact/Fiscal Effect

The fiscal effect of the bill is estimated to be \$600,000 in FY 2010 and \$700,000 in fiscal years 2011 through 2017, the maximum annual allocation amounts in the bill.

The Department has the following technical comments regarding the bill:

- As with other credits administered by the Department of Commerce, the bill could require the taxpayer to attach a copy of the certification and credit allocation from Commerce to the tax return for the year on which the credit is claimed. Alternatively, this requirement could be included in the administrative rules promulgated by the Department of Commerce.

DOR Position

- Support

Contact: Sherrie Gates-Hendrix, (608) 261-6240

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Testimony in Support of AB 763 – Dairy Manufacturing Facility Tax Credit
Thursday, February 7th, 2008

Good morning Chairman Ott and Members of the Assembly Agriculture Committee. My name is Shawn Pfaff, and I am speaking on behalf of the Wisconsin Dairy Business Association (DBA) in support of AB 763 – the Dairy Manufacturing Facility Tax Credit. This bipartisan legislation allows for dairy manufacturing cooperatives to obtain tax credits for modernization and reinvestment. The DBA applauds the foresight and leadership of Governor Doyle, Chairman Ott, Representative Davis, and the Members of this committee for their commitment toward our state's strong and proud dairy industry.

The Dairy Business Association of Wisconsin is a statewide organization, of dairy producers, vendors, allied industry partners, and professionals actively working to assure that dairy producers, large and small, remain an active, thriving part of Wisconsin's economy, communities and food chain. DBA is dedicated to being proactive in ensuring a strong and vibrant future for the dairy industry in Wisconsin.

DBA has worked closely with Governor Doyle and legislators over the past couple of legislative sessions to lay the groundwork for the revival of the dairy industry that we have seen over the past five years in Wisconsin. Those strong, bipartisan accomplishments include passage of comprehensive agricultural siting legislation, which gives producers a state-wide framework of guidelines to follow to expand their operations instead of a patchwork of local ordinances that could restrict growth. Also, the passage of the dairy modernization tax credit in 2004 provided the economic incentive for dairy producers to expand and modernize their operations. As a result of these efforts, Wisconsin has seen its dairy cow numbers increase for the first time in a generation and seen a reduction in the rapid exodus of dairy farms that has occurred over the past 25 years.

Last summer, the Dairy Business Association worked closely with the Wisconsin Cheese Makers Association, Wisconsin Dairy Products Association, Wisconsin Agribusiness Council, Wisconsin Farm Bureau Federation and the Wisconsin National Farmers Organization in support of the Governor's and legislative efforts to include the Dairy Plant Investment Tax Credit in the 2007-09 biennial budget.

This Investment Tax Credit will allow for up to \$200,000 of investments made to expand or modernize Wisconsin's dairy manufacturing facilities. However, that tax credit did NOT include dairy processors who were cooperatives. DBA believes that dairy manufacturing cooperatives must be included in this tax credit and join with Representative Davis and Senator Vinehout and others who have introduced AB 763 and urge the committee for its passage.

For now, Wisconsin still holds title to being the cheese capitol of our nation. Wisconsin cannot afford to have its dairy production remain static, it must grow! We cannot ignore the fact that as we speak, California is gaining ground towards becoming the cheese capitol of this nation. Last year, Wisconsin made 2.4 billion pounds of cheese, and California crept ever-closer to its goal by putting out 2.2 billion pounds. Not long ago, California out-produced Wisconsin in milk, the first step towards challenging our state's title of "America's Dairyland." All of Wisconsin's dairy production plants need this Dairy Tax Investment Credit to modernize their operating structure and processes to increase production, create new in-state jobs and to leverage themselves as a competitive player in the global marketplace where lower cost of production is the necessary edge needed to stay out front and remain a viable dairy processing industry.

Wisconsin dairy farms produce nearly 2.6 billion gallons of milk each month. That wholesome, fresh farm milk is sent to more than 200 production facilities in rural Wisconsin that employ thousands of workers to manufacture the nation's finest dairy products. Milk is the life blood of Wisconsin's crucial agricultural economy. America's Dairyland cannot afford to lose more dairy farms and we cannot afford to lose any more of the associated manufacturing, transportation, packaging and other skilled jobs that dairying supports. Governor Doyle and bipartisan legislators have recognized the important role the investment in dairy plants will have on the stability of the dairy industry in our state and the economic sustainability of the rural communities that depend upon them.

We encourage the members of legislature to help retain the 128,000 dairy-related jobs that put \$5.5 billion into our economy and onto our tax rolls -- the dairy industry in total is valued at nearly \$23 billion dollars a year to our state's economy. It is imperative that this important segment of our state's economy continues to grow. The Wisconsin Dairy Business Association has also registered its support of Assembly Bill 732 relating to the meat processing facility franchise tax credit.

Thank you, and I'd be willing to take any of your questions.